



ACCOUNTING FOR INDIVIDUAL BORROWER 502 LOAN ACCOUNTS HANDBOOK

December 2023 v3

**RURAL DEVELOPMENT SECTION 523
MUTUAL SELF-HELP HOUSING PROGRAM**

Disclaimer

A handbook for grantees of the United States Department of Agriculture (USDA) Section 523 Self-Help Housing Program developed jointly by the Self-Help Housing Technical and Management Assistance (T&MA) Contractors:

- *Florida Non-Profit Housing, Inc. (FNPH)*
- *LIFT Community Action Agency, Inc. (LIFTCAA)*
- *NeighborGood Partners*
- *Rural Community Assistance Corporation (RCAC)*

Funded by: *United States Department of Agriculture, Rural Development*

The work that provided the basis for this publication was supported by funding under a contract with the USDA Rural Development (RD). The substance and findings of the work are dedicated to the public. The T&MA Contractors are solely responsible for the accuracy of the statements and interpretations contained in this publication. Such interpretations do not necessarily reflect the views of the Government.

This handbook is designed to provide accurate and authoritative information regarding the subject matter covered. It is distributed with the understanding that the authors are not engaged in rendering legal, accounting, or other professional services. If legal or other expert assistance is required, the services of a competent professional should be sought.

All rights reserved. The text of this publication, or any part thereof, may not be reproduced in any manner whatsoever without written permission from the appropriate T&MA Contractor (refer to the chapter's Introduction for the states covered by each region). If you wish to make or distribute copies, please send a request indicating the number of copies that you wish to make or distribute, the size and type of audience to whom you wish to distribute, and the type of organization or agency that you are. Send the request to:

<u>Region I</u>		<u>Region II</u>	
Florida Non-Profit Housing, Inc.		LIFT Community Action Agency, Inc.	
P.O. Box 1987		209 North 4 th Street	
Sebring, Florida 33871-1987		Hugo, Oklahoma 74743	
(863) 385-2519		(580) 326-5165	
trogers@fnph.org		owyne.gardner@liftca.org	
<u>Region III</u>		<u>Region IV</u>	
NeighborGood Partners		Rural Community Assistance Corporation	
363 Saulsbury Rd.		3120 Freeboard Drive, Suite 201	
Dover, Delaware 19904		West Sacramento, California 95619	
(302) 678-9400		(916) 447-2854	
www.neighborgoodpartners.org		www.rcac.org	

After receipt of consent and conditions letter you may copy and distribute the manual in terms and conditions as set and approved by the T&MA Contractor.

Guide to Accounting for Individual Borrower 502 Loan Accounts

Refer to the Introduction chapter of this handbook to identify the appropriate T&MA Contractor to contact for your area. After receipt of consent and conditions letter you may copy and distribute the manual in accordance with such terms and conditions as set and approved by the T&MA Contractors.

Table of Contents

INTRODUCTION	5
The Self-Help Program	5
Rural Development.....	6
Rural Development Offices	6
Rural Development National Office	7
Rural Development State Office.....	7
Rural Development Area Office.....	7
Rural Development Local Office.....	7
Rural Development Section 502 Single Family Direct Home Loan.....	8
Rural Development Section 504 Single Family Housing Repair Loan & Grant.....	9
The 523 Self-Help Housing Technical Assistance Grant	9
Regulations.....	10
The T&MA Contractors.....	10
Self-Help Training Handbooks	11
Introduction to this Handbook.....	12
Establishing 502 Record Keeping Procedures	12
Internal Controls.....	15
Drawdown Procedures for Rural Development Section 502 Funds.....	16
Cost Estimating.....	17
Purchase Order System	18
Purchasing House Materials.....	18
Subcontracted Work	20
Reconciliation of Invoices.....	20
Statement of Deposits and Withdrawals (USDA Form RD 402-2).....	21
Signing of Checks and Payments to Suppliers.....	23
Reconciliation of Bank Statements.....	25
SHARES	25

Guide to Accounting for Individual Borrower 502 Loan Accounts

Accounting Steps for Section 502 Loans 26

General Recommendations 27

Custodial Bill-paying 28

Closing Summary 31

List of Appendices 32

Appendix I 33

Appendix II 34

Appendix III 36

Appendix IV 37

Appendix V 38

Appendix VI 39

Appendix VII 40

Appendix VIII 41

Appendix IX 42

Appendix X 44

Appendix XI 46

Appendix XII 47

Appendix XIII 48

INTRODUCTION

The Self-Help Program

Self-help housing is just as it sounds, participants working to build or repair their own homes. This program is a direct application of the barn raising traditions of pioneering rural Americans. The Self-Help Program originally began as the Mutual Self-Help Method, where participants, working in groups, supply the necessary labor to build their homes, having qualified for mortgage financing to purchase land, building materials, and some subcontracted work on the more technical items. The program authority also allows for two additional methods of home repair (owner occupied and acquisition rehab).

Regardless of the method selected, the participants must be low or very low income. At the end of the grant, at least 40% of the total participants served should be in the very low-income category. The remaining participants must be in the low-income category (see income map for details: <https://www.rd.usda.gov/sites/default/files/RD-DirectLimitMap.pdf>).

Mutual Self-Help Method: With the assistance of the skilled staff, a group of generally 4 to 10 households is formed. The participants typically select lots, house plans, and apply for individual mortgage loans. While participants await loan approval, the group studies the responsibilities of homeownership, construction techniques, tool usage, safety, homeowner's insurance, taxes, home maintenance, and money management. This time is known as the pre-construction stage.

Once the loans are closed, the group begins to build under the guidance of a skilled construction supervisor. The participants must complete a minimum of 65% of the construction labor tasks; usually the more technical work such as electrical, plumbing and HVAC is subcontracted out. The construction stage typically lasts from 8 to 12 months, depending on the size of the group and other factors. Participants work during their spare time (evenings, weekends, and days off) so as not to interfere with the regular household employment.

Acquisition Rehabilitation and Owner/Occupied Rehabilitation: With the assistance of skilled staff, an applicant repairs a home that they purchase or one in which they already own and reside in. The participant applies for a loan and/or grant and once

qualified, they enter into a contract to purchase a property or in the case of owner/occupied, provide proof of ownership and residency. The property is inspected, and scope of work is developed. This information is submitted to Rural Development for approval. Once the loan is approved and closed, the participant, under the guidance of a skilled construction supervisor, completes selected tasks from the scope of work. Usually, the more technical work such as electrical, plumbing and HVAC is subcontracted out.

Rural Development

Rural Development is an agency of USDA. The Rural Development mission is to help rural Americans improve the quality of their lives. Rural Development helps rural communities meet their basic needs by building water and wastewater systems; financing decent, safe, sanitary and affordable housing; supporting electric power and rural businesses, including cooperatives and supporting economic and community development with information, technical assistance, and funding.

Rural Development has been providing funds for the self-help housing program since the late 1960s. They provide Section 523 self-help technical assistance grants to eligible entities to start and implement the program. Rural Development thoroughly reviews the self-help application before a grant is awarded and will continue to monitor and provide oversight in the areas of construction and administration, through quarterly meetings, construction inspections, and participant accounts throughout the term of the grant.

In most cases Rural Development provides another important ingredient to the self-help program; construction to permanent financing at favorable interest rates in the form of a Single-Family Housing Direct Home Loan (Section 502). They are independent of private or conventional lending institutions and the financing is directly between Rural Development and the borrower. Each applicant must qualify and obtain a loan individually from Rural Development. Rural Development's function as a lender is significant because private credit institutions in rural areas are relatively few in number, smaller, and often impose more rigid terms which can be a barrier to homeownership.

Rural Development Offices

Rural Development operates from four levels: national, state, area and local. The Rural

Housing Service Administrator in the National Office and the State Directors are politically appointed – all others are federal civil service employees.

Rural Development National Office

The Rural Development National Office is responsible for developing policy and interacts with Congress for legislation, policy development and program funding. They also obligate and monitor all Section 523 self-help grants, maintain reports and statistics on operating self-help organizations and project needs for funding. At the national level, USDA has a separate Appeals Division that hears appeals on actions unresolved at the state level.

Rural Development State Office

The State Office has the approval authority over smaller Section 523 Self-Help grant applications up to \$300,000. Section 502 home loan funds are allocated on a state-by-state basis and the State Office distributes the 502 funds based on a state RD formula that is released annually via a funding policy memorandum. Staff members who are key to the operation of a self-help program located in the State Offices are the:

- Rural Development State Director – Has the authority to sign grant agreements.
- Rural Housing Program Director – Oversees the self-help program.
- Rural Development Housing Specialist – Reviews and approves the 502 direct loans and 504 grant/loans, also approves building sites, and completes environmental reviews.

Rural Development Area Office

The Rural Development Area Director is typically responsible for the Section 523 grant. In some states however, the grant monitoring has been retained at the State Office level with the Single Family Housing Program Director or it has been assigned to the Local Office. In any case, the Rural Development grant manager is responsible for ensuring that the grant is operated effectively and in accordance with the regulations.

Rural Development Local Office

Within this office, the Loan Specialist is typically responsible for making the Section 502 home loans to participating applicants of each self-help group. They will be responsible for monitoring the 502 loans and will also be the co-signer on the participant's Supervised Bank Accounts and will process the construction draws. They are also the personnel who will

convert the loans once the local jurisdiction has completed the final inspection and issued a Certificate of Occupancy.

Rural Development Section 502 Single Family Direct Home Loan

Most applicants that participate in the self-help housing program use Rural Development's Section 502 home loan program to finance their homes. Section 502 loans are only available for homes in eligible rural areas as defined by USDA (<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfpd>). In order to qualify for a Section 502 loan, prospective self-help applicants must meet Rural Development income eligibility requirements as low-income or very low-income (see the income map for details: <https://www.rd.usda.gov/sites/default/files/RD-DirectLimitMap.pdf>). They must be credit-worthy, have repayment ability for the loan requested, and be unable to secure credit from other sources. The income limits, developed in consultation with the U.S. Department of Housing and Urban Development, are subject to local variation and are published annually. Current information on income limits and eligibility requirements for Section 502 loans is available at RD local offices or online (links above).

The repayment period for the Section 502 loan is either 33 or 38 years, and the interest rate is between 1% and the current market rate. The actual rate of interest the borrower pays depends on the borrower's income, as does the loan term. If a borrower is eligible to pay less interest than the market rate, the borrower then receives a subsidy called "payment assistance." The amount of payment assistance a borrower receives is determined by the loan amount, loan period, and the household income. The payment is either determined based on 24% of their monthly income or the loan at a 1% interest rate, whichever is the higher of the two, but can never be higher than the loan at full note rate. The assistance makes up the difference between the full loan interest rate and the interest rate the participant pays. A portion of this subsidy must be repaid at the time of sale or loan payoff based on equity, time, etc.

Some other benefits of a 502 loan are that there is no requirement for a down payment, closing costs can be included in the loan (up to the appraised value with authorized exceptions to include the tax service fee, homeownership education fee, appraisal fee, and any required contribution to an escrow account for taxes and insurance (excluding the first-year insurance premium)) and there is no requirement for private mortgage insurance. Rural Development can

offer a moratorium on loan payments for up to two years if a borrower's income decreases by at least 20% by no fault of their own.

During home construction, Section 502 funds are advanced from the Rural Development finance office in St. Louis and disbursed by the local offices to the self-help grantee. Grantees prepare the drawdowns and checks for each participant's account as needed to purchase materials for different phases of construction.

Rural Development Section 504 Single Family Housing Repair Loan & Grant

Also known as the Section 504 Home Repair program, this provides loans to very-low-income homeowners to repair, improve or modernize their homes or grants to elderly households (62 or older) very-low-income homeowners to remove health and safety hazards. The maximum loan is \$40,000 and the maximum grant amount is \$10,000. Grants can only be given to elderly households (62 or older). This funding could be used with the repair or rehab program, or other funding could be sought.

The 523 Self-Help Housing Technical Assistance Grant

For organizations to operate a self-help housing program, Rural Development provides technical assistance (TA) grants. The TA grant is for a period of up to two years, and is available to public and private nonprofit organizations, federally recognized Tribes, and units of state or local government. The amount of grant funds an organization can receive is based primarily upon how many houses they build or repair in a grant period. For new construction programs, an organization can receive up to 15% of the average cost of a new home financed under the 502 program in their area, for every home they are planning to build. Check with your Contractor for other methods of determining grant amounts for repair programs.

Allowable uses of Section 523 technical assistance grant funds include:

- Recruit eligible households to participate in the self-help program.
- Hold training meetings with participants on the self-help process and homeownership topics such as mortgages, insurances, taxes, and maintenance.
- Assist participants to obtain and develop building sites; obtain or create Rural Development-approved house plans and helping participants select theirs.
- Help participants bid and select building supplies and subcontractors; train participants in construction techniques and provide construction supervision.
- Supervise participant Section 502 loan accounting, including:

- Totaling invoices and itemizing payments to suppliers and subcontractors.
- Maintaining records of deposits and withdrawals.
- Preparing checks (accompanied with invoices and statements).

Disallowed activities using Section 523 Technical Assistance grant funds are:

- The use of any TA funds to pay staff to provide labor on the houses.
- Purchasing any real estate or building materials for participating families.
- Paying any debts, expenses or costs which should be the responsibility of the participating families.
- Any lobbying activities as prohibited in 2 CFR 200 subpart F.

Regulations

The main regulation that governs the Self-Help Housing Program is [RD Instruction 1944-I](#). Additionally, USDA Rural Development provides an overview and guidance for the Self-Help Housing Program in the [USDA RD Handbook 3550 Appendix 13](#). Appendix 13 guidance includes an overview of the following:

- Application Processing Priority
- Self-Help Loan Application Packaging
- Environmental Reviews
- Appraisals
- Selecting a Contractor
- Construction Documents
- Sub-Contracts
- Administering Construction Funds
- Self-Help Inspections
- Post Closing Leveraged Loans/Grants
- Participant Withdrawal
- Construction Closeout
- Self-Help Take-out Loans
- Other Loan Financing

The T&MA Contractors

Rural Development contracts with four Technical and Management Assistance (T&MA) Contractors to assist operating and potential self-help housing grantees. This assistance ranges from staff and board training, grant management, and development of applications to 502 loan program and processing training, newsletters and conferences, among other services. These

services are provided at no cost to the grantee.

The four contractors are:

- Florida Non-Profit Housing – covering Region I, the Southeast, including the states of AL, FL, GA, MS, NC, SC, TN, Puerto Rico and the Virgin Islands.
- LIFT CAA fka Little Dixie CAA – covering Region II, the South-Central US, including the states of AR, KS, LA, MO, ND, NE, NM, OK, SD, TX, WY.
- NeighborGood Partners fka NCALL – covering Region III, the Northeast and Midwest, including the states of CT, DE, IA, IL, IN, KY, MA, MD, ME, MI, MN, NH, NJ, NY, OH, PA, RI, VA, VT, WI, WV.
- Rural Community Assistance Corporation (RCAC) – covering Region IV, the Western US, including the states of AK, AZ, CA, CO, HI, ID, MT, NV, OR, UT, WA, and the Western Pacific.

Self-Help Training Handbooks

The T&MA Contractors have produced a variety of training materials for the purpose of assisting grantees and training grantee staff. The following is a list of the available self-help handbooks. Please contact your T&MA Contractor for a copy or for more information.

- Orientation Handbook
- Feasibility Handbook
- Application Handbook
- Board of Directors Handbook
- Program Director Handbook
- Construction Supervisor Handbook
- Group Coordinator Handbook
- Financial Management Handbook for Federally Funded Organizations
- Accounting for Individual Family 502 Loan Accounts Handbook
- 502 Loan Processing Guidebook
- Preconstruction Meetings Handbook
- SHARES Handbook
- Acquisition and Owner-Occupied Rehab Handbook
- Section 523 Technical Assistance Grant Application Handbook

Introduction to this Handbook

In addition to establishing and maintaining an accounting system for the Section 523 grant funds, the Self-Help Housing grantee is responsible for keeping an accurate account of the disbursement of funds from the individual self-help families' Section 502 loan accounts. When a self-help participant is approved for a Rural Development Section 502 loan and the loan is closed, a supervisory bank account is established for the loan. The borrower and Rural Development are co-signatories on checks and have to approve any disbursements made for building materials, contracted services, etc., from the account. The accounting for the disbursements from the Section 502 loans is a significant responsibility that each self-help grantee should take very seriously. Rural Development Instruction 1944-I indicates that technical assistance provided by the grantee to the families should include "providing financial supervision to individual families with Section 502 loans, which will minimize the time and effort required by Rural Development in processing borrower expenditures for materials and contract services." Since the loans are made through Rural Development, every effort should be made to assist the local office. Rural Development requires that a sampling of the loan accounts be audited with the audit of the 523 TA grant funds.

Establishing 502 Record Keeping Procedures

In order to fulfill this accounting responsibility, the grantees must establish a record keeping system with clear procedures for handling the purchase of construction supplies, invoices from subcontractors and vendors, and accounting for expenditures from borrower loan funds. The following information provides guidelines for self-help grantees to use in designing the procedures necessary for a standard of control and a system of checks and balances to protect the participants and the grantee.

The first guideline is to distribute responsibilities and tasks in a *clear* manner so that the staff understands the procedures to follow and who has what responsibility. They must all understand the system, the distribution of responsibilities, and their duties. Each staff member should also understand the responsibilities and terminology of other staff members. For instance, the bookkeeper needs to become familiar with construction terms and what materials

go into building a house. Continued monitoring and enforcement of the tasks are absolutely necessary to the success of the program.

The following are a few suggestions for assignment of responsibilities regarding the disbursement and accounting for the individual borrower's Section 502 loan funds.

<u>TASK</u>	<u>STAFF PERSON</u>
Purchase materials	Construction Manager or Construction Supervisor
Reconcile delivery slips with invoices	Executive Director, Program Manager or Bookkeeper
Process invoices for payment	Bookkeeper
Take checks to be signed by Borrower and Rural Development	Program Manager, Construction Supervisor, or Group Coordinator
Preparation of Statement of Deposits & Withdrawals/Loan Activity Reports	Bookkeeper

A second guideline is to establish financial files for each self-help housing borrower. These files should contain any financial information regarding the borrower and their loan. The file or a series of files should include:

1. The borrower's bank account information.
2. The house cost estimate.
3. The purchase order system for their house.
4. Copies of purchase orders before reconciliation with invoices.
5. Copies of paid invoices and the corresponding check. (Copies of purchase order(s) and delivery slip(s) should be attached.)
6. Borrower's Statement of Deposits & Withdrawals and/or similar reports.
7. Contracts with subcontractors.
8. Any related documentation for expenditures, i.e. insurance forms, warranties, etc.

9. Reconciled bank statements.

Thirdly, the grantee should establish a bookkeeping system to track each individual borrower's loan activity. This can be done manually or by using an automated accounting system such as:

 <https://quickbooks.intuit.com/oa/get-quickbooks/>

QuickBooks Desktop Pro 2019-helps organize your business finances all in one place so you can be productive. It is simple to set up and use. Can stay on top of invoices, manage expenses, get reliable reports for tax time and import your data from a spreadsheet. Step by step tutorials show you how to create invoices, record expenses and more. No accounting knowledge is necessary.

 <https://www.sage.com/en-us/products/sage-50-cloud/>

(this was once called Peachtree Accounting)

Sage 50 Premium Accounting 2019 provides built-in checks and balances to ensure your financials are accurate and your information is available anytime and anywhere for you and your accountant. The streamlined interface is easy to master, and built-in accounting best practices keep your business finances on track and help you stay compliant with taxes and reporting requirements. One-click reports can be accessed anywhere, anytime, so you can rest assured that your business is in solid financial shape. Sage 50 Premium lets you track everything – not just payroll – in one place. Manage your inventory on hand with the same software you use to handle payroll and customer invoicing. Tools to analyze customers, inventory, and employees are built in, so you can manage everything.

 <https://www.xero.com/us/features-and-tools/accounting-software/>

Xero Invoicing helps keep your cash flow healthy by sending online invoices with online payment options. Bank connections allow you to connect to your bank so transactions flow automatically into Xero each business day. Information is secure with extra layers of security in Xero. Projects-Track the time and money you're spending on jobs, and where you can be more profitable. Inventory-Track inventory, manage stock and easily add items into invoices and orders. Bank reconciliation-Keep track of the money and simple bank reconciliation. Payroll with Gusto-Run unlimited payroll across all 50 states and automate filings. Dashboard-See how cash is tracking with a quick glance at your customizable Xero dashboard. Xero expenses-Easily record, claim, and manage expenses and receipts online.

TO TRACK 502 CONSTRUCTION LOAN ACTIVITY IN SUPERVISED BANK ACCOUNTS (SBAs)

Mutual Self-Help grantee organizations can successfully track individual family 502 loan activities using a variety of software programs (examples listed above). These programs include Excel or other programs spreadsheets as well as most automated accounting systems.

Example:

The first expenses involved in the construction of a self-help home are usually the purchase of the lot and the closing costs of the loan, neither of which are paid by check from the supervised bank accounts. These must be entered into the accounting system, however, in order to generate meaningful reports on the status of construction costs. These “non-check” transactions are entered through a journal entry using the closing documents from the title company.

In the example above, the J. Doe family received an \$8,000 down payment assistance grant from HOME to pay for a portion of the cost of their lot. The grant and the first drawdown of 502 construction loan funds in the amount of \$29,000 went directly to the title company to be used to purchase the lot and to pay the closing costs of the loan. The \$8,000 went toward the \$25,000 cost of the lot. The \$29,000 draw was allocated as follows:

1. \$17,000 to pay the balance of the cost of the lot;
2. \$2,000 to pay the buyer’s closing costs; and
3. \$10,000 to the family’s supervised checking account to be used for construction costs.

Internal Controls

While there are many important ingredients in an accounting system, financial excellence demands proper internal controls. Internal controls refers to the built-in system of accounting procedures, checks and balances, division of tasks, and safeguards that guarantees the fiscal integrity of the organization to the participating families and to the funding source, USDA Rural Development. Internal controls will diminish the possibility of willful fraud, abuse, and errors, while offering management, the participating families, and Rural Development the most up-to date and complete loan information.

In designing an accounting system for the borrower’s loans it is important to consider all elements of internal controls:

1. Accounting Procedures

Written procedures should be developed to match the families’ and organization’s needs. All records must be kept current and reports must accurately reflect the families’ bank and loan balances.

2. Checks and Balances

It is important to build certain checks and balances into the borrower accounting system. A simple example is the requirement of having both the borrower and Rural Development sign the checks and review by two entities. The families can play an important part in checks and balances by reviewing and approving payments.

3. Segregation of duties

In designing the accounting system it is important to pay attention to the segregation of duties. The goal of segregation of duties is to assure that one person is not responsible for all of the steps in the accounting process. A good example of segregation of duties is that both Rural Development and the grantee reconcile the families' checking accounts.

4. Safeguards

An accounting system can have many different types of safeguards. One is the maintenance of adequate documentation for all expenditures. Another example is to assure that all bank accounts are reconciled promptly. The families' checkbooks should be kept in the grantee's office in a locked cabinet or safe.

Good fiscal policies established for internal control will benefit both the participating families and the self-help grantee.

Drawdown Procedures for Rural Development Section 502 Funds

When a borrower's loan is closed, a supervisory bank account is established with Rural Development and the borrowers as co-signatories. In order to have funds available in the account to pay for material orders, an amount must be requested from Rural Development and deposited in the bank account. Rural Development offices may have different procedures but most allow for at least several draws during the construction period. The entire amount of the loan can be drawn down prior to completion of the home. Once construction is completed, the grantee will notify Rural Development to convert the borrower construction loan to a permanent loan. After the conversion, the borrower's first monthly payment will be due within 30 days.

The supervised bank account system allows for monies to be available to purchase the site and materials with no mortgage payments due until after the construction is completed. Many local offices will initiate a drawdown based on a call by the self-help housing grantee or a drawdown request form. Whenever the drawdowns are to be made from a borrower's loan account, significant planning is required by the grantee to determine the amount to be requested in order to minimize the interest expense incurred by the borrower.

Cost Estimating

A key to the accounting for the individual borrower loan funds is an accurate cost estimate for the self-help house. An accurate cost estimate is the basis for a purchase order system, which will act as a control in ordering the materials and as documentation for the disbursement of funds from the borrower bank account.

Prior to the obligation of each loan, the program director and/or construction supervisor prepares a cost estimate by category of expense. A copy of the appropriate cost estimate is kept in each borrower's file.

The bookkeeper should use the cost estimate in the preparation of purchase orders and in preparing the Statement of Deposit and Withdrawals (USDA Form RD 402-2) or a similar budget comparison report. These reports will provide the families and the grantee with the ongoing information needed to compare budgeted line items with actual expenditures. This should prevent the need for supplemental loans.

In order to avoid cost overruns and costly delays, and to minimize the potential for lawsuits, each borrower should sign a construction contract with each subcontractor. This will protect the interests of both parties.

A clear, concise construction contract is essential and Form RD 1924-6, "Construction Contract" and Form RD 1924-7 "Contract Change Order", if needed, should be used. (See Appendix II for web links.) However, other contract documents may be acceptable, with prior approval from Rural Development. No matter what type of contract document is used, it should be as specific as possible. Form RD 1924-6, when properly executed includes the following:

1. Description of the materials and work to be performed.
2. Amount to be paid for all materials and labor to be furnished.

3. Dates when the contractor will start and complete the work.
4. How payments are to be made.
5. General conditions such as proper approval for changes in work, inspection of work, liquidated damages for contractor's inability to complete work, contractor's obligation to discharge liens, and assurance of contractor's warranty.

Additionally, it is beneficial for the grantee to execute a "Construction Agreement" with subcontractors, which clarifies the grantee's role as the representative of the families. It also lists the grantee's requirements with which the contractor must comply and specifies any conditions under which payment may be withheld or another contractor substituted.

Such contracts are essential for the management of the families' loan expenditures. The construction contract will serve as the basis for payment to the subcontractor.

Purchase Order System

In planning for purchasing materials for the self-help houses, it is strongly recommended that Self-Help grantees establish a purchase order system for each given house plan. A master purchase order system can be developed and adapted for each house plan. The purchase order system helps control the ordering of supplies so that unnecessary buying and duplication of materials can be avoided. The system also helps in processing payments to suppliers. See Appendix III for a flowchart of the purchase order system and Appendix IV for a sample borrower purchase order form.

After a particular house design has been built, the purchasing agent or construction supervisor should update the purchase order information based on the actual amount of materials used. Therefore, the cost estimate would only need to be revised based on current prices for each Section 502 loan application submitted using that house plan.

Purchasing House Materials

In actual usage, the construction supervisor retrieves the appropriate purchase order(s) for each borrower's house on a weekly basis according to the stage of construction. The construction supervisor then indicates any changes in quantities to be ordered, or deletions on the purchase order form. These should be minor. The staff person in charge of purchasing

materials reviews the purchase order. Changes as indicated by the construction supervisor need to be included as well as updated prices from the supplier. A note of any changes should be made and at a later date, corrections made to the borrower's purchase order system and cost estimate. The actual purchase orders should include the following items:

1. The name of supplier.
2. The date the materials are ordered.
3. The borrower's name for whom the purchase is being made.
4. The name of the town and subdivision, and lot number where the house is located.
5. The invoice number of the completed order from the supplier.
6. The appropriate signatures which may include the staff person making the order & borrower.
7. The name of the construction supervisor of the group.
8. From the house cost estimate, the cost and the cost category or its number for the item that is being purchased. (This type of coding system will help the bookkeeper post disbursements to the correct category.)
9. The description of the item ordered.
10. The quantity of the item being ordered.
11. The unit price as quoted by the supplier at the time of the order. Indicate if it is a special price or sale item.
12. The total price of the items ordered. (Multiply the quantity by the unit price.)

After the purchase order is completed, place a copy of the purchase order in the borrower's financial file to later reconcile with the delivery slip and invoice. Then, the order is phoned or emailed in or taken to the supplier. The supplier should be required to set up individual accounts and maintain separate billing records for each borrower. The supplier must also be asked to record the purchase order number on each invoice for the materials sold to each borrower. This will make reconciling the invoices, purchase orders, and delivery slips much easier later on. Additionally, families must not be allowed to purchase the materials themselves, because this bypasses the system and can cause duplications or errors.

When the materials are delivered, the construction supervisor should verify the condition and quantity of the items with the delivery slip and sign the slip as well as the

participating family. If there are any discrepancies, they should be noted on the delivery slip. The supplier's delivery person should also sign the slip. The slip should be taken to the main office and filed with the borrower's purchase orders. If all the materials were not delivered, a note of the shortage should be made. The materials should be re-ordered from another supplier or delivered later by the same supplier.

Subcontracted Work

An important part of estimating the cost of a self-help house is determining the costs of subcontracted work such as plumbing and electrical. Virtually all self-help housing programs subcontract certain jobs in the construction of the houses. A copy of the subcontracts should be kept on file. The grantees should obtain bids from as many qualified subcontractors as feasible to assure that the best materials and labor are secured for the best price.

In addition to obtaining bids, grantees should interview prospective subcontractors to determine their quality of performance and workmanship. Take a look at their work, check references and ask their clients whether they were pleased with the work and the price. Furthermore, ask others in the community about the integrity, professional competence, and timeliness of the subcontractors under consideration. It is recommended to do a credit check in the process of selecting contractors.

Reconciliation of Invoices

When invoices are received from the supplier, they should be reconciled with the purchase order(s) and delivery slip(s). First, separate the invoices by borrower name and match the purchase order and delivery slip with the invoice. If the invoice is for supplies for more than one borrower, make copies of the invoice and file one in each appropriate borrower's file. Each purchase order should have the corresponding invoice number on it. Conversely, the invoice should have the purchase order number indicated on it. Review them to be sure that:

1. Quantity billed agrees with quantity ordered and delivered.
2. Unit prices on the invoice agree with the quoted prices on the purchase order. If you are billed for materials not ordered or delivered, or if prices are incorrect, the

supplier must be notified to issue a credit memo to credit the invoice or to issue a corrected invoice. The employee processing the invoices should check:

1. The calculations (quantity x item prices = total) on the invoices.
2. Indicate on each invoice the appropriate cost category (from cost estimate) as shown on the purchase order.
3. If a borrower is paying several invoices from one supplier, add the invoice totals and staple the adding machine tape to the invoices.

Invoices from subcontractors should be reconciled with the construction contract. Before such bills are paid, the construction supervisor should verify that the work billed for was completed. Additional billings or invoices should be well documented.

The bookkeeper should then prepare the checks for payment of each borrower's invoices, using checks taken out of each borrower's checkbook. ***No invoices for supplies should be paid that do not have both the purchase order and the delivery slip attached.*** These document the purchase as well as the receipt of purchases. Other invoices and requests for payments e.g. utility bills and dumpsters must be well documented to validate the purchase. Then the bookkeeper should mark or stamp "***PAID***" on each invoice and indicate the date paid and the check number. The check should indicate the invoice number or specify what the check is for. The invoices and checks should then be reviewed by another person, such as the director, and initialed to signify that they are ready for presentation to the borrower and Rural Development for signatures.

Statement of Deposits and Withdrawals (USDA Form RD 402-2)

As checks are prepared by the bookkeeper for payment of materials or related items, each borrower's checks must be recorded in their individual Statement of Deposits and Withdrawals (USDA Form RD 402-2) or similar report to the one provided in the appendix in order to keep a running account of the amount of money available in the borrower's supervised bank account. This report is a record of all the disbursements made from the borrower's loan fund and shows what type of materials have been bought as well as a current loan balance and a current checking account balance. The balances remaining in each cost category from the cost

estimate are also shown. A sample Statement of Deposits and Withdrawals is shown in Appendix V. Most grantees have elected to maintain a similar reporting system on their computer. USDA RD offices will accept a computer-generated check register and a budget comparison report by borrower in lieu of the Statement of Deposits and Withdrawals or facsimile.

The 402-2 report is made up of horizontal lines for the date, payee, check number, loan balance, and bank balance. Multiple columns on the right are used for cost categories according to the cost estimate. (For example, all checks with expenses relating to foundation will be deducted from the category total for foundation.) The Statement of Deposits and Withdrawals is completed as follows:

1. Fill out the top of the form as indicated using cost categories shown on your house cost estimate.
2. Under the column entitled "Loan Balance," enter the total of the loan provided by Rural Development.
3. Under the column entitled "Bank Balance," enter the first deposit of drawdown monies from Rural Development.
4. The columns that follow correspond to the cost categories on the house cost estimate. Enter the name of the category, i.e. Foundation, and the amounts budgeted for each category. Check your entries by adding the categories' entries; the total should equal the loan balance entry.
5. Using the settlement statement prepared by the title company enter all expenses paid at closing including site costs and fees.
6. As checks are prepared, they should be entered into the borrower's Statement of Deposits and Withdrawals. The date, payee, and check number should be entered. The check amount should then be filled in, and then subtracted from the loan balance, the bank account balance, and the correct cost category column(s). In order to record disbursements under the correct cost category column(s), the bookkeeper should refer to the applicable purchase order(s) and invoice(s), which should indicate the cost category to be charged. At times, a check will cover disbursements

from a number of categories and the check's amount must be divided accordingly among the categories.

7. Upon completion of the entries, two reviews should be made to ensure that the entries are correct:
 - a) The loan balance should equal the sum of the balances for the cost categories.
 - b) The bank account balance should be equal to the borrower's checkbook balance.If either does not match, then an incorrect entry has been made.
8. When the supervised bank account balance becomes low, it is time to request a drawdown from Rural Development. Be sure that the total of the drawdowns requested does not equal the loan amount until the house is finished. A drawdown should be entered in the borrower's Statement of Deposits and Withdrawals as a receipt/increase to the supervised bank account balance.
9. Record any non-502 loan funds deposited into the families' bank account as a receipt/increase to the bank balance.
10. It is suggested that you review each borrower's loan account balance with Rural Development's figures. This can be done when the families' checks are taken to Rural Development for signatures.
11. When a page of the report is completed, the balances are carried forward to the next page.

Signing of Checks and Payments to Suppliers

Part of the grantee's responsibility in providing financial supervision of the participating families' individual mortgage loans is to establish a smooth and efficient routine for obtaining borrower and Rural Development co-signatures and paying suppliers. To fulfill their responsibility, there are certain minimum procedures that should be followed:

1. One staff member should be assigned the responsibility of presenting the checks to the families for signatures. Meetings with families in which checks will be signed should be scheduled on a regular basis. Checks can be signed at the construction sites, or the families can be required to come into the office.

2. The original invoices must accompany the checks when they are delivered to families for signatures so that families can review them before signing. The families should indicate their approval for payment on each invoice or on the request for payment voucher (See Appendix XII), and then sign the check for each supplier.

Under no circumstances should either the families or Rural Development sign blank checks.

3. A copy of the invoice and a copy of the check should be placed in the borrower's file.
4. The checks, original invoices with original purchase orders attached and check copies are then presented to the Rural Development local office for review and counter-signature. This should be done according to a pre-determined schedule so that Rural Development staff will know when to expect checks for their review and signature, and can schedule their time to accommodate the work.
5. The Rural Development local office may keep the original copies of the invoices and return the signed checks to the grantee for mailing to the proper supplier. If Rural Development does not keep the originals, the grantee should file them.
6. A supplier payment form should accompany the checks when forwarded to suppliers which lists the borrower name, invoice number, amount and check number for each borrower. One letter may include payments from several families and the listing will help the supplier to credit the proper account. Payments should be scheduled in order to take advantage of discounts.
7. Prior to payment of suppliers or subcontractors, a Release by Claimants should be obtained from the vendor. This provides protection for the grantee and the families from liens against the house or the property. See Appendix VI & VII for USDA Forms RD 1924-9 and -10.

Following these simple procedures will eliminate grantee staff time spent sporadically arranging for families to sign checks several times during the month, and will allow ample time for the families to review invoices. They will minimize the time and effort required by Rural Development to counter-sign checks. The supplier payment form will help the supplier give

proper credit to borrower accounts and will clarify problems that could arise concerning unpaid invoices.

Reconciliation of Bank Statements

Reconciliation of the families' bank statements must be done, preferably by the Self-Help TA Grantee. In most situations, the grantee maintains the families' checkbooks and prepares the checks. Therefore, the bank statements should come to the grantee and be reconciled by a self-help staff person. Each statement's balance should then be checked against the supervised bank account balance on the borrower's Statement of Deposits and Withdrawals and in any automated accounting system. The local office of Rural Development may require that they receive a copy of the bank statements to reconcile themselves or may require that they alone do the reconciliation. If Rural Development feels they must do the reconciliation, then it is prudent for the self-help grantee to receive copies of the bank statements and also reconcile them. Also, by reconciling the borrower bank statements, the grantee is fulfilling its role of technical assistance provider according to the 1944-I, which indicates the grantee should provide "financial supervision to individual families with Section 502 loans." Once the bank statement is reconciled, it should be placed in the borrower's financial file.

SHARES

SHARES stand for the Self-Help Automated Reporting and Evaluation System. It is an internet-ready application designed to manage, track, evaluate, and report on the status of the self-help program. It will also share this information with all parties that provide assistance to this program. SHARES has two distinct components. One is an informational section that includes links to other web sites that may be helpful to an organization during the time the grant is active. The second component is an automated database.

The database is an application that allows borrower and grant information to be entered and reports to be generated and printed. Data will need to be entered on a regular basis since Rural Development personnel at all levels and the T&MA Contractor will be reviewing this data for monitoring, reporting, and statistical information purposes. On a monthly basis, the T&MA Contractor will be using the information in the database to print a monthly report.

There is a considerable amount of information that will need to be entered into this system by the person designated by the Project Director, usually the Group Coordinator. The information will include detailed borrower and lot information, construction progress and grant status. Although this will take time, the reports that this system is able to generate are extremely beneficial, both to the organization, the T&MA Contractors, Rural Development, and the sustainability of the overall program. There is an entire manual dedicated to training for the use of this system. Request one from your T&MA Contractor if the organization has not yet received one.

Accounting Steps for Section 502 Loans

The following is a summary of the accounting steps involved in recording the borrower Section 502 loan disbursements:

1. Develop a purchase order system for each borrower and establish a format for each borrower's Statement of Deposits and Withdrawals (USDA Form RD 402-2) or similar report.
2. When it is time to order materials, the authorized staff person should sign the appropriate purchase order (P.O.). Materials are then ordered by the appropriate staff member.
3. Materials are delivered to the site, verified, and the delivery slip(s) signed and forwarded to the bookkeeper.
4. Once invoices are received, the purchase orders, delivery slips, and invoices are reconciled by the bookkeeper.
5. Checks are prepared by the bookkeeper, and reviewed with attached documentation by an authorized staff person.
6. The checks are posted by the bookkeeper to the correct borrower's account.
7. The check, accompanied by copies of the purchase order and invoice, is reviewed, approved and signed by the borrower and Rural Development.
8. The original or a copy of the invoice should be given to Rural Development and a copy of the invoice, purchase order, and check (or canceled check when received) should be placed in each borrower's file.

9. The check, accompanied by the invoice number(s) and borrower's name, is submitted by the bookkeeper to the vendor for payment.
10. The families' bank statements are reconciled by the bookkeeper.
11. Periodically, the borrower's loan balance as shown in the Statement of Deposits and Withdrawals or similar report should be checked against the sum of the balances of the cost categories, as well as with Rural Development's record of the loan balance.

General Recommendations

There are certain general recommendations and best practices that should be followed to insure a smooth and accurate accounting of the borrower Section 502 mortgage loans:

1. Materials should not be transferred from one house to another without documentation and payment. If materials are purchased for one house but used on another, the construction supervisor should prepare a transfer memo. (See Appendix VIII.) The materials and the quantity being transferred are listed on the memo and the respective families sign their consent and receipt of the transfer. Then an invoice in the name of the borrower who originally received the materials is prepared and a check drawn from the borrower's account that is receiving the materials. The transfer memo and invoice document the payment. The transaction should be recorded on both families' Statement of Deposits & Withdrawals or similar reporting system.
2. Families should not be allowed to purchase materials for their houses. This can lead to abuses or duplication of materials.
3. Payments to suppliers should be scheduled in order to take advantage of discounts. This will also help employees schedule their work to meet deadlines and the Rural Development staff will know when to expect checks for their review and signature. Furthermore, the families will sign the checks on a scheduled, not sporadic, basis.
4. Suppliers should be required to set up individual accounts for each borrower in construction and to maintain separate billing records for each borrower. This will prevent confusion as to which materials belong to which house and borrower.

Projects that have failed to maintain separate borrower accounts with each supplier have run into serious billing errors. It also helps the supplier to maintain control over his billing.

5. No invoice or bill should be paid unless it has a borrower's name and the purchase order number that it corresponds to.
6. Shared expenses between families should be minimized. If you have an expense shared equally by the families, such as the rental of a portable latrine and/or dumpster, the expense should be equally divided among the families, and copies of the invoice attached to each borrower's check.
7. In an individual bill-paying system, families' loan funds are never deposited into the T.A. grant bank account nor pooled in a borrower association checking in order to enable forwarding one check to the vendor. If you do, you are comingling funds and could cause a more in-depth and costly audit to be required of your TA grant unless using a custodial accounting system.

Custodial Bill-paying

As described in this manual, the traditional method of accounting for individual family 502 loan activities starts with the opening of an individual supervised bank account (SBA) for each family. The SBA is described as a checking account established for each participating family that requires both USDA Rural Development (RD) and the family cosign all checks. All loan drawdowns are deposited into this account and all vendors are paid directly from this account. In a group of 10 families, a vendor may receive as many as 10 checks in payment of an invoice that represents supplies or services provided to build multiple homes.

Some organizations that receive 523 TA funds to administer a Mutual Self-Help program use an alternative method of accounting for their participating families' 502 loans – custodial bill-paying. As in the traditional method of bill-paying, SBAs are established for each participating family and checks drawn on these accounts require signatures from both USDA RD and the families. The primary differences are in the number of checks required to be written from these accounts and the number of checks received by the vendor. In the custodial bill-paying system, the 523 TA organizations maintain a separate custodial bank account.

Throughout the construction process, some of each family's individual 502 loan funds are deposited into this bank account and held in trust for the families until the funds are disbursed to various vendors.

The custodial bill-paying process works in the following way: On a regular basis (weekly, monthly or semi-monthly), invoices for construction expenses are tabulated for each family. One check from each family is made payable to the 523 grantee in the appropriate amount to cover payment of these invoices. These checks are deposited into the custodial bank account. One check is then made out to each vendor from the custodial bank account in payment of the appropriate families' costs.

As indicated above, the advantage of the custodial method of bill-paying is a major reduction in the number of checks that must be written and co-signed for each family. For a grantee with more than one group building at a time, this can represent a major savings in time for both the 523 grantee that must prepare all of the checks and the USDA RD staff who must sign all of the checks. (See charts, Appendix X.)

There are a number of issues that must be considered when using the custodial method of bill paying:

1. USDA-RD must authorize the use of the custodial bill-paying method. (USDA Rural Development Instruction part 1924, Subpart A, Section .6 (c) describes the requirements that the 523 TA grantee must meet in order for 502 checks to be made payable directly to the TA grantee.) (See Appendix XI)
2. Accounting for each family's construction costs will be more complicated than simply tracking loan draws and checks made out to individual vendors in each SBA. In the custodial method of bill-paying, all of the checks from the SBAs are made payable to the 523 grantee to be deposited into the custodial bank account. Vendor information will have to be tracked in a different way than simply by "Payee" since the vendors are all paid from the 502 funds held in trust in the custodial bank account, not from the SBAs. Some organizations have resolved this issue by tracking the disbursements to vendors as if they were paid out of the SBAs and simply entering an adjusting journal entry into the corporate accounting system used to track the custodial bank account activity. Using this method, budget comparison

reports by family can be produced using the accounting software used to track the SBAs.

3. The custodial bank account should be established under the Federal Tax ID number of the 523 TA Grantee and included in the organization's financial reports. However, the deposits made into this account and the disbursements made from this account should not be recorded as income and expenses for the organization since these funds do not belong to the organization. The funds are simply held in trust for the participating mutual self-help families. These funds pass through the grant of the organization and should be reflected as balance sheet activity using the bank account as an asset and a liability account to offset the asset. In addition, the 523 grantee must set up the organization's corporate accounting system to track the funds in the custodial account by participating family.
4. The 523 grantee should establish internal controls for the 502 construction funds that are deposited into the custodial bank account. One of these controls should include the selection of appropriate check signers for disbursements made from this bank account. Staff responsible for preparing disbursements from the SBAs should not be signers on the custodial bank account.
5. In the traditional method of bill-paying the SBAs are established in the participating families' names and Social Security numbers. Funds deposited into the SBAs do not exceed \$250,000. As a result, they are fully protected by the Federal Deposit Insurance Commission (FDIC). In the custodial bill paying method, the balance in the custodial bank account can exceed \$250,000 at times. The 523 grantee should request a letter of collateralization from the bank to protect any funds in excess of \$250,000 in this account. (See USDA Rural Development Instruction Part 1902 subpart A Section .7 – "Pledging collateral for deposit of funds in supervised bank account").
6. The custodial account should be set up as non-interest bearing. The benefit of interest earned on these funds is outweighed by the difficulty of determining which family's funds earned the interest. Interest earned is not income to the 523 grantee since the funds in the account belong to the participating families.

Closing Summary

All self-help housing grantees must establish financial management systems and policies in order to accurately account for the participating families' 502 loan funds. The systems and policies established must conform to generally acceptable accounting principles (GAAP) and meet Rural Development's requirements as outlined in 1944.411(f). (See Attachment IX.)

The procedures, guides, and checklists offered in this accounting guide are recommended as standards of control necessary to protect the self-help grantee and the participating families. While conditions will vary among grantees, each can adapt the principles outlined in this guide to establish, supplement, or revise their accounting system to ensure that all aspects of their self-help housing operation are based upon sound fiscal practices.

Ultimately, the self-help grantee, participating families, and Rural Development will benefit from established financial controls which prevent potential fraud and abuse and provide a framework for regular analysis and accurate tracking of monies spent.

List of Appendices

Appendix I.	Sample Chart of Accounts
Appendix II.	Federal Instructions and Forms
Appendix III.	Purchase Order System Flowchart
Appendix IV.	Sample Borrower Purchase Order Form
Appendix V.	USDA Form RD 402-2 (Statement of Deposits and Withdrawals)
Appendix VI.	USDA Form RD 1924-9 (Lien Waiver)
Appendix VII.	USDA Form RD 1924-10 (Release by Claimants)
Appendix VIII.	Property Transfer/Disposal Form
Appendix IX.	USDA RD Instruction 1944-I Section 1944.411 (Conditions for Approving a Grant)
Appendix X.	Traditional Bill-paying vs. Custodial Bill-paying chart
Appendix XI.	USDA RD Instruction 1924-A Section 1924.6(c) (Mutual self-help Method)
Appendix XII.	Sample Request for Payment
Appendix XIII.	Sample Borrower Construction Expense Spreadsheet

Appendix I

Sample Chart of Accounts

<u>Account</u>	<u>Type</u>	<u>Balance Total</u>	<u>Description</u>
DOE, J. Main St.	Bank	-1,000.00	Lot 3 -
O'NEAL, G. Main St.	Bank	-2,000.00	Lot 6 -
SMITH, T. Main St.	Bank	7,000.00	Lot 1 -
Accounts Payable	Accounts Payable	3,000.00	
Opening Bal Equity	Equity	0.00	
Retained Earnings	Equity		Retained Earnings
502 Construction Loan	Income		
Bank of US DPA	Income		Down Payment Assistance
Grant			
HOME DPA	Income		
01 - Lot Purchase	Expense		
02 - Fees & Permits	Expense		
03 - Excavation	Expense		
04 - Concrete	Expense		
05 - Lumber & Fasteners	Expense		
06 - Trusses	Expense		
07 - Siding	Expense		
08 - Roofing	Expense		
09 - Plumbing	Expense		
10 - Electric	Expense		
11 - HVAC	Expense		
12 - Insulation	Expense		
13 - Drywall	Expense		
14 - Exterior Doors	Expense		
15 - Garage Doors	Expense		
16 - Interior Doors & Trim	Expense		
17 - Windows	Expense		
18 - Paint	Expense		
19 - Floor Cover	Expense		
20 - Appliances	Expense		
21 - Counter Tops	Expense		
22 - Cabinets	Expense		
23 - Irrigation	Expense		
24 - Ground Cover/Plants	Expense		
25 - Gutters	Expense		
26 - Allowances	Expense		
27 - Overhead	Expense		
28 - Contingency	Expense		
29 - Closing Fees	Expense		
30 - Other Detail	Expense		

Appendix II

Federal Instructions and Forms

Website Addresses for USDA/Rural Development Instructions and Forms

To obtain a copy of USDA/Rural Development Instruction 1944-I, go to the following website:

- USDA RD Instruction 1944-I
<https://www.rd.usda.gov/files/1944i.pdf>

To obtain a copy of USDA/Rural Development Instruction 1924-A 1924.6(c) Mutual self-help method:

- USDA RD Instruction 1924-A 1924.6 (c) Mutual self-help method
<https://www.rd.usda.gov/files/1924a.pdf>

To obtain a copy of USDA/Rural Development Form RD 402-2 (Statement and Withdrawals)

- USDA RD Form 402-2 (Statement and Withdrawals)
<http://www.usa-federal-forms.com/usa-fedforms-usda-rd/usda-rd-402-2-nonfillable.pdf>

To obtain a copy of federal forms RD 1924-6 and RD 1924-7, go to the following websites:

- Form RD 1924-6 “Construction Contract”:
<https://forms.sc.egov.usda.gov//efcommon/eFileServices/eForms/RD1924-6.PDF>
- Form RD 1924-7 “Contract Change Order:
<https://forms.sc.egov.usda.gov//efcommon/eFileServices/eForms/RD1924-7.PDF>

To obtain a copy of federal form RD 1924-9, go to the following website:

- Form RD 1924-9 “Certificate of Contractor’s Release”:
<https://forms.sc.egov.usda.gov//efcommon/eFileServices/eForms/RD1924-9.PDF>

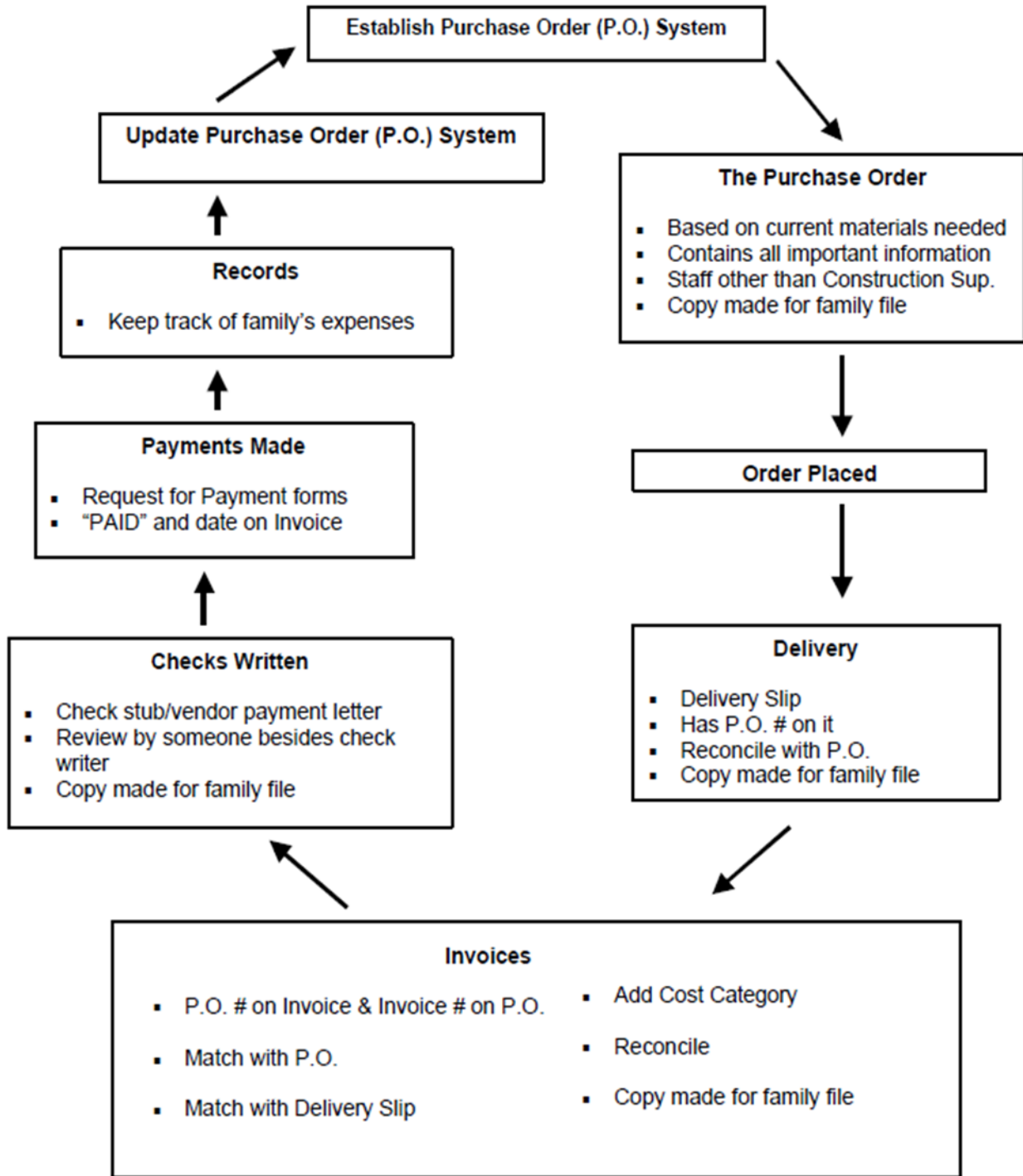
To obtain a copy of federal form RD1924-10, go to the following website:

- Form RD1924-10 “Release by Claimants”:

Guide to Accounting for Individual Borrower 502 Loan Accounts

<https://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD1924-10.PDF>

Appendix III



Appendix IV

Sample Borrower Purchase Order Form

FAMILY PURCHASE ORDER FORM

FAMILY:	_____	PURCHASER:	_____
VENDOR/SUPPLIER:	_____	DATE OF ORDER:	_____
CONST. SUPERVISOR:	_____	LOCATION:	_____
INVOICE NUMBER:	_____		

CATEGORY	QUANTITY	ITEM AND DESCRIPTION	UNIT COST	TOTAL PRICE
TOTAL				

Appendix V

USDA
Form RD 402-2
(Rev. 9-98)

STATEMENT OF DEPOSITS AND WITHDRAWALS

DATE OF RD 402-1 _____

(Column 5 through 14 — The upper part of the heading will show the purpose. The lower part will show the amount)

TYPE OF LOAN

DATE (1)	DEPOSITS AND WITHDRAWALS DEPOSITS IDENTIFICATION-SOURCE WITHDRAWALS PAYEE-PURPOSE (2)	CNK. NO. (3)	BALANCE OF FUNDS (4)	TYPE OF LOAN										
				\$ (5)	\$ (6)	\$ (7)	\$ (8)	\$ (9)	\$ (10)	\$ (11)	\$ (12)	\$ (13)	\$ (14)	
BANK ACCT. NO.	BORROWER	ADDRESS	NAME OF BANK	LOCATION	SHEET NO.									

DATE (1)	DEPOSITS AND WITHDRAWALS DEPOSITS IDENTIFICATION-SOURCE WITHDRAWALS PAYEE-PURPOSE (2)	CNK. NO. (3)	BALANCE OF FUNDS (4)	TYPE OF LOAN										
				\$ (5)	\$ (6)	\$ (7)	\$ (8)	\$ (9)	\$ (10)	\$ (11)	\$ (12)	\$ (13)	\$ (14)	
	BALANCE BROUGHT FORWARD	X												
BANK ACCT. NO.	BORROWER	ADDRESS	NAME OF BANK	LOCATION	SHEET NO.									

Appendix VI

USDA
Form RD 1924-9
(Rev. 1-98)

Form Approved
OMB No. 0575-0042

Date _____

Dear Sir:

I hereby acknowledge the receipt of _____ dollars
(\$ _____) in full payment of my contract dated _____ for improvement work which I did for you and
which is described in my contract.

I certify that I have paid in full for all materials purchased and all labor employed in the performance of this contract, and that there
are no claims against me under this contract on account of injuries sustained by workers employed by me or by subcontractors
thereunder. I hereby release you from any claims arising by virtue of this contract.

I am attaching Form RD 1924-10, "Release by Claimants," signed by all persons from whom I have purchased materials and by all
subcontractors and all persons employed in connection with my contract with the above-named borrower.

WARNING

**The statements and representations made above are made in connection with construction financed in whole or
in part by the United States Department of Agriculture (USDA). The statements and representations will be
used to determine the release of USDA provided funds. The making of any false statement or misrepresentation
herein may be a crime punishable under Title 18 U.S.C. § 1001 which provides in part: "Whoever, in any matter
within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or
covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or
representations, or makes or uses any false writing or statement or entry, shall be fined under [title 18 of the United
States code] or imprisoned not more than five years, or both.**

Sincerely,

Contractor

Position 6

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0042. The time required to complete this information collection is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

RD 1924-9 (Rev. 1-98)

Appendix VII

USDA
Form RD 1924-10
(Rev. 1-98)

Form Approved
OMB No. 0575-0042

RELEASE BY CLAIMANTS

The undersigned, having received payment in full for all labor, materials, supplies, or equipment supplied to _____, Contractor, or to any subcontractor, in the construction or repair of the improvements upon the property located at:

_____, and furnished in the execution and fulfillment of contract between said Contractor and _____ Owner, dated

_____, do (does) hereby release and waive any and all claims, liens, and lien rights, of any kind, nature, or description whatsoever, against said property and the Owner thereof, and against said Contractor.

<i>Lien or Claimant</i>	<i>Work or Materials</i>	<i>Amount</i>	<i>Date</i>

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0042. The time required to complete this information collection is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Appendix VIII

PROPERTY TRANSFER/DISPOSAL FORM

GROUP NAME: _____

DATE: _____

PROPERTY #: _____

PROPERTY TRANSFERRED FROM:

PROPERTY TRANSFERRED TO:

DESCRIPTION:

CONDITION:

REASON FOR TRANSFER:

Do not dispose of any property without clearing it with the property department and your program director.

Appendix IX

RD Instruction 1944-I

1944.411 Conditions for approving a grant.

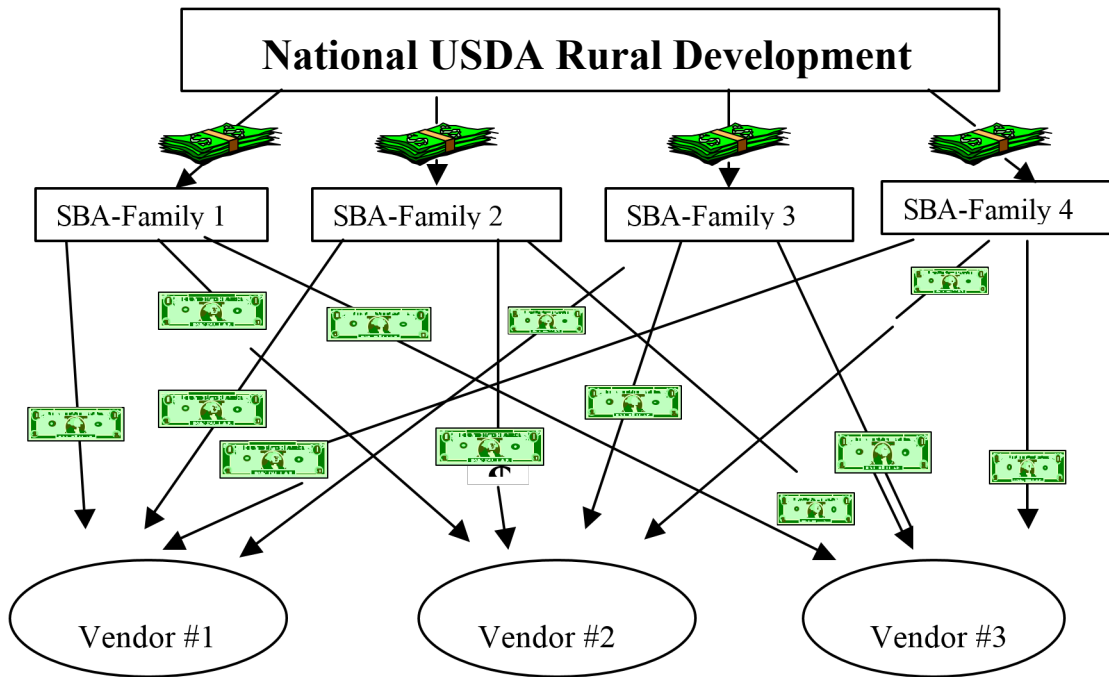
A grant may be approved for an eligible applicant when the conditions in the letter of conditions are met, and the following conditions are present:

- (a) The applicant has or can hire, or contract directly or indirectly with, qualified people to carry out its responsibilities in administering the grant.
- (b) The applicant has met all of the conditions listed in §1944.410(e) of this subpart.
- (c) The grantee furnishes a signed statement that it complies with the requirements of the Departmental Regulations found in 7 CFR Part 3015 and Part 3016.
- (d) A resolution has been adopted by the board of directors which authorizes the appropriate officer to execute Exhibit A of this subpart and Form RD 400-4, "Assurance Agreement." (Revised 04-24-91, PN 163.)
- (e) The grantee has fidelity bonding as covered in 7 CFR Part 3015 if a nonprofit organization or, if a State or local government, to the extent required in 7 CFR Part 3016.
- (f) **The grantee has agreed by completing SF-424B, "Assurances-Non-Construction Programs," that it will establish a recordkeeping system that is certifiable by a certified public accountant that it adequately meets the Agreement. (Revised 04-24-91, PN 163.)**
- (g) The grantee has established an interest bearing checking account on which at least two bonded officials will sign all checks issued and understands that interest earned in excess of \$250.00 annually must be submitted to RD quarterly. (The use of minority depository institutions is encouraged.)
- (h) The grantee has developed an agreement to be executed by the grantee and the self-help participants which clearly sets forth what is

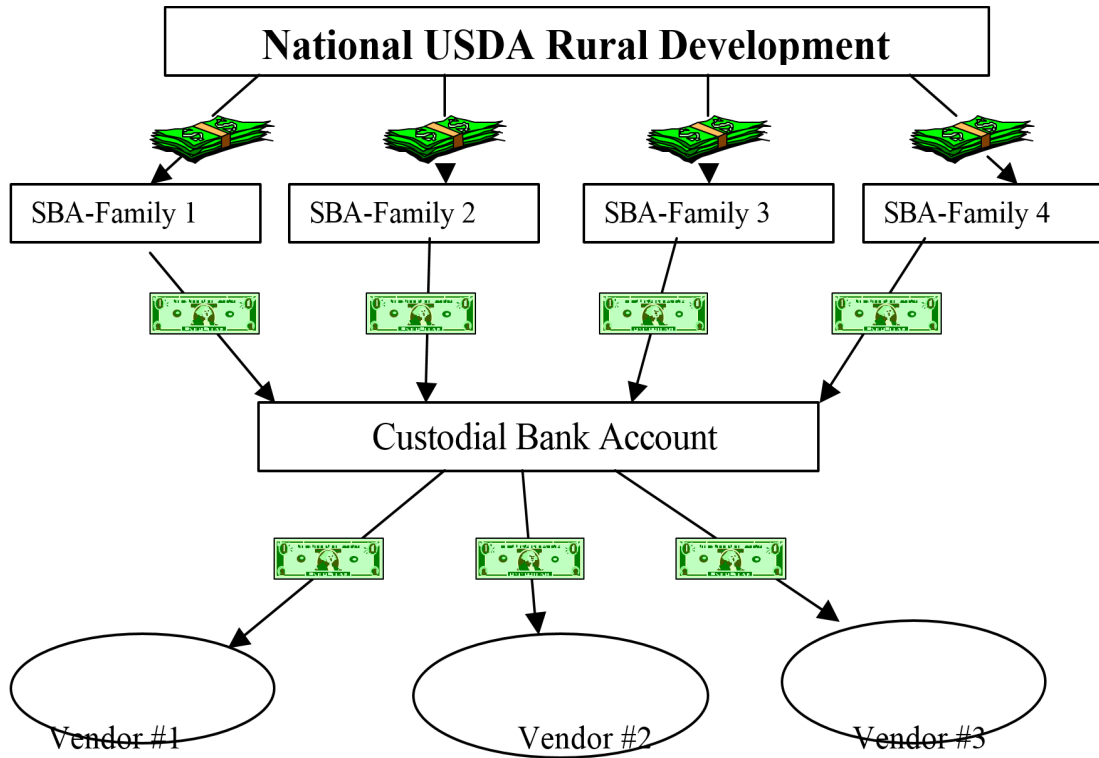
expected of each and has incorporated Exhibit B-2 of this subpart which clearly shows what work is expected of the participating family.

Appendix X

Traditional Bill Paying Method



Custodial Bill Paying Method



Appendix XI

RD Instruction 1924-A

(c) Mutual self-help method. The mutual self-help method is performance of work by a group of families by mutual labor under the direction of a construction supervisor, as described in subpart A of part 1944 of this chapter. The ways of doing the work, buying materials, and contracting for special services are like those used for the borrower method. Materials can be bought jointly by the group of families, but payments will be made individually by each family. In the case of RH loans to families being assisted by Self-Help Technical Assistance (TA) grants in accordance with subpart I of part 1944 of this chapter, the County Supervisor may countersign checks for materials and necessary contract work made payable directly to the TA grantee, provided the District Director determines that: (Revised 10-27-95, SPECIAL PN.)

- (1) The grantee acts in the same capacity as a construction manager in the group Purchase of material and services.
- (2) The grantee has an adequate bookkeeping system approved by the District Director to assure that funds in each RH account are properly distributed and maintained.
- (3) The grantee receives no compensation in the way of profit or overhead for this service and all discounts and rebates received in connection with the purchase of materials or services are passed on to the participating families.
- (4) The grantee has a record-keeping system which shows that the costs of the materials and services were prorated to each borrower's account in relation to the actual material and service used by each borrower.

Appendix XII

Sample Request for Payment

CHECK NUMBER: _____ CHECK AMOUNT: _____

VENDOR: _____ DATE: _____

PAYMENT OF THE FOLLOWING DESCRIBED INVOICE OR CLAIMS IS HEREBY REQUESTED:

P.O. #	ACCOUNT #.	DESCRIPTION	DEBIT	CREDIT

PAYMENT WILL NOT BE MADE UNLESS PROPER SUPPORTING DOCUMENTS ARE ATTACHED

CERTIFICATION: I hereby certify that all the information furnished on this form is true and correct to the best of my knowledge and belief and is furnished in good faith.

REQUESTED BY: _____

APPROVED BY: _____

Appendix XIII

FAMILY: John Jane Doe		Location: 3 bedrooms / 2 baths							
GROUP: Martin G PLAN:		CATEGORY 1		CATEGORY 2					
DATE	VENDOR	INVOICE OR CHECK #	P.O. #	DEPOSIT OR CHECK AMOUNT	BANK BALANCE	AVAILABLE LOAN BALANCE	CATEGORY NUMBER	ENTRY BALANCE	ENTRY BALANCE
BUDGET AMOUNTS FOR EACH CATEGORY									
06/11/98	First Draw				16,040.00	46,711.61	ALL	1,595.00	600.00
	Closing Statement	attorney			16,040.00	46,711.61		1,595.00	600.00
06/18/98	D & Dirt Movers	1	3039	(497.55)	15,542.45	46,214.06	2	1,595.00	600.00
06/18/98	MS. Non-Profit	2	3045	(915.00)	14,627.45	45,299.06	1	915.00	102.45
06/25/98	Patrick Howell	3	3041	(933.33)	13,694.12	44,365.73	3	680.00	102.45
06/26/98	Taylor Ready Mix	4	3089	(3,183.25)	10,510.87	41,182.48	4	680.00	102.45
06/26/98	Joseph Lack	5	3040	(4,319.20)	6,191.67	36,863.28	4	680.00	102.45
07/09/98	Charles Holmes	6	3042	(1,364.25)	4,827.42	35,499.03	5	680.00	102.45
07/07/98	Charles Holmes	7	3090	(1,364.25)	3,463.17	34,134.78	5	680.00	102.45
07/30/98	Patrick Howell	8	3087	(933.33)	2,529.84	33,201.45	3	680.00	102.45
07/30/98	McCraw Pest Control	9	3091	(280.14)	2,249.70	32,921.31	4	680.00	102.45
07/31/98	Charles Holmes	10	3983	(1,364.25)	885.45	31,557.06	5	680.00	102.45
08/17/98	Deposit			15,000.00	15,885.45	31,557.06		680.00	102.45
TOTALS								915.00	497.55